Health Care Costs

Presented to the:

Joint Commission on Health Care

October 26, 2007

Stephen W. Bowman
Senior Staff Attorney/Methodologist

Background: Health Care Costs Study

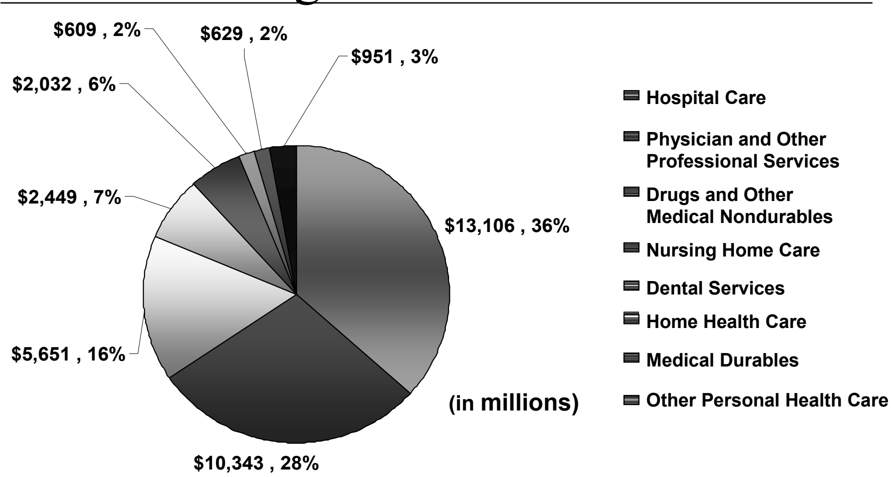
- Senate Joint Resolution 4 (Senator Reynolds) directed JCHC to "study the derivative effects of increases in health care costs on health insurance premiums" and to examine:
  - "Factors leading to rising health care costs in the Commonwealth"
  - "Derivative effects of rising health care costs including increases in health insurance premiums and denial of coverage"
  - "Ways to reduce health care costs in the Commonwealth and alleviate the burdens associated with the rising cost of health care."
- A report was presented to JCHC on October 19, 2006 however specific findings were delayed until 2007

Health Care Costs Continue to Rise

- HC spending has increased at an average rate of 9.8% since 1970
  - Annual HC spending
    - 1970 - $75 billion
    - 2005 - $2.0 trillion
    - 2015 - $4.0 trillion

Source: Kaiser Family Foundation, *How Changes in Medical Technology Affect Health Care Costs*, March 2007

2004 Total Health Care Expenditures in Virginia $35.8 Billion



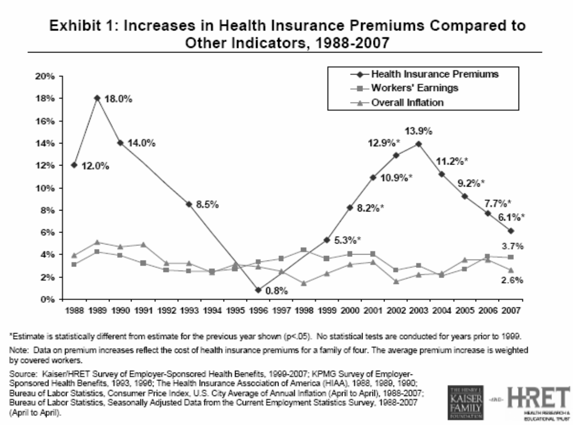
Source: Kaiser - Statehealthfacts.org, *Virginia Expenditures*, last accessed April 9, 2007

Health Care Costs Are Not Equally Distributed Across the Population

- Health Care Costs from 1970-96
  - 10% of the population accounts for 70% of the costs
  - 50% of population accounted for 3% of the costs
- Common conditions among the highest-cost 10% of the population
  - Ischemic heart disease, cancer, diabetes, hypertension, pulmonary conditions, mental disorders, and trauma
  - Repeated hospitalizations for same illness

Bodenheimer and Fernandez, *High and Rising Health Care Cost - Part 4: Can Costs be Controlled While Preserving Quality*, Annals of Internal Medicine Vol . 143:1, July 2005.

Health Insurance Premiums Continue to Rise



- Premiums are rising at a slowing rate
- Rate of increase is still greater than workers' earning increases

Sources: Kaiser Family Foundation and Health Research Educational Trust, *Employer Health Benefits* (2007)
Catlin, et al., *National Health Spending In 2005: The Slowdown Continues*, Health Affairs 26 (1): 142 (2007)

Premium Growth Continue to Exceed Increases in Inflation and Worker Earnings

2006

- Insurance premiums increased 6.1%
  - Lowest percentage increase in premiums since 1999
- Average annual premium for all types of health insurance plans
  - Single coverage was $4,479
  - Family coverage was $12,106
- Employee % of premium payment
  - 16% for Single coverage
  - 28% for Family coverage

Average Monthly Premiums (Paid by Employer and Worker)		
Plan Type	Single Coverage	Family Coverage
PPO	$4,638	$12,443
HMO	$4,299	$11,879
POS	$4,337	$11,588
HDHP/SO	$3,869	$10,693

Source: KFF/HRET *2007 Employer Health Benefits Survey*.

Employers Health Insurance Offerings

In 2006, 60% of firms offered Health insurance down from 69% in 2000

2006

- Approximately 77% of covered employees that pay 0% - 50% of premium costs
- 6% of covered workers are in firms that vary contribution based on worker wellness participation
  - 3% in 2005.

# Employees	% Offering Health Benefits in 2006
3 to 9	45%
10 to 24	76%
25 to 49	83%
50 to 199	94%
200 or more	99%
All Firms	**60%**

Source: KFF/HRET *2007 Employer Health Benefits Survey*.

Virginia Has Some of the Least Expensive Small Group Health Plans in the Nation

- Virginia premiums for all small groups
  - $246 for single monthly premium average
  - $645 for family monthly premium average
- United States premiums for all small groups
  - $311 for single monthly premium average
  - $814 for family monthly premium average
- Virginia's small group health plan premiums were ranked 3rd most inexpensive in the U.S.

Source: American Health Insurance Plans' Center for Policy and Research, *Small Group Health Insurance in 2006*, September 2006.

Rising Health Care Cost's Effect on the Market

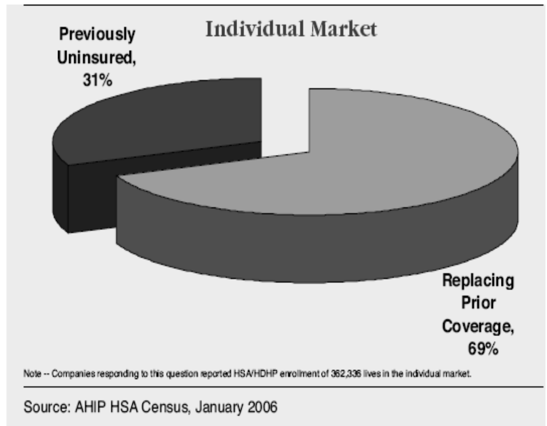
- Consumer Directed Health Plans (CDHPs) are increasingly popular
  - Combines a high-deductible health plans (HDHP) with a tax-advantaged health reimbursement account or health savings account (HSA)
  - Offered more by employers
  - Expected to lower health care utilization
  - Have some drawbacks such as:
    - Reduced % of low-income adults who sought highly effective care for acute conditions
    - Associated with worse blood-pressure control and less preventative measures

Sources: United States Government Accounting Office, *Consumer-Directed Health Plans*, 514, April 2006.
Thomas H. Lee, M.D., and Kinga Zapert, Ph.D. , *Do High-Deductible Health Plans Threaten Quality of Care?,* New England Journal of Medicine, 353:12 September 22, 2005

HSA/HDHP Encourage the Uninsured to Purchase Health Insurance Policies

HSA/HDHP policies that were for previously uninsured:

- 33% of small firms policies
- 31% for individual plans



Source: America's Health Insurance Plans, *HSAs and Account Based Health Plans*, June 2006.

Efforts to Reduce Costs

Health Insurers

- Disease management
- Wellness programs
- Information technology
- Identifying the chronically ill
- Increased consumer responsibility

Employers

- Encourage healthier lifestyles
- Provide information about quality health care to employees
- Provide information about generic drugs
- Employees with unhealthy behaviors pay more

Providers

- Electronic medical records
- Develop systems to reduce medical errors
- Participate in programs that reward efficiency and quality

Sources: Kaiser Family Foundation, *Comparing Projected Growth in Health Care Expenditures and the Economy*, May 2006 & *"Survey of Executives Finds Health Costs up 12 %, With Effects on Hiring, Pay" Health Care Policy, Volume 13, Number 30, July 25, 2005.*

State Affordable Cost Strategies

Virginia

1. Pooled purchasing
   - HB761(2006)- Health Group Cooperatives
2. Consumer driven plans -HSAs
   - Established in 2005
3. Examining insurance mandates
   - Special Advisory Commission on Mandated Health Insurance Benefits established in 1990

Source: Slide 15, *Health Care Costs & Spending: Latest State Strategies*, Richard Cauchi, NCSL, September 19, 2007

State Affordable Cost Strategies

Virginia

4. Decrease health care acquired infections
   - Virginia Improving Patient Care and Safety (VIPCS) established in 2000
   - July 1, 2008 hospitals will report certain types of infections
5. Cost transparency & disclosure
   - Virginia Health Information (VHI) established in 1996

Source: Slide 15, *Health Care Costs & Spending: Latest State Strategies*, Richard Cauchi, NCSL, September 19, 2007

Other State Affordable Cost Strategies

Mandating employers offer 125 plan with state insurance connector (Massachusetts)

125 plans offer employees to use pretax dollars toward health insurance

	w/o Plan	With Plan
Annual Income	$50,000	$50,000
Annual pre-tax Employee Contribution	$ 0	$ 3,000
Taxable Income	$50,000	$47,000
Estimated Taxes 38%*	$19,000	$17,860
Annual After-Tax Employee Contribution	$ 3,000	$ 0
Net Take Home Pay	$28,000	$29,140
Annual Savings from Pre-Tax Contributions	**$0**	**$ 1,140**

*38% comprised of 25% Federal + 5% State + 8% FICA/Medicare

Other State Affordable Cost Strategies

- Increasing the number of insured
  - Uninsured health care costs are partially paid for by the insured
  - Significant decrease of the uninsured is expected to decrease insured health care costs due to less subsidization of the uninsured

Virginia Reports Reviewed

- JLARC's Options for Extending Health Insurance to Uninsured Virginians
- Governor's Health Reform Commission's Roadmap for Virginia's Health

JLARC Options

- Allow small employers to utilize State employee or Local Choice health plans
  - Could make providing insurance more affordable and attractive by reducing premium and administrative costs
  - Could lead to higher premiums for State and Local Choice employees, increased administrative burden and costs for the State
    - Small employers would still incur substantial premium costs

Source: JLARC slide 41 *Options for Extending Health Insurance to Uninsured Virginians*, December 11, 2006

JLARC Options

- Establish a market exchange that small employers could designate as employer plan
  - Could encourage more small employers to offer health insurance because provides opportunity to offer pre-tax employer contribution without any administrative responsibilities
  - Elimination of administrative burden may not provide sufficient incentive to offer health insurance

Source: JLARC slide 42 *Options for Extending Health Insurance to Uninsured Virginians*, December 11, 2006

JLARC Options

- Expand Medicaid/FAMIS eligibility
  - Medicaid and FAMIS covered over 800,000 Virginians (2006); Expansion would:
    - Allow Virginia to cover more low-income individuals
    - Expand the use of federal matching funds
    - Add costs to the State
- Provide direct subsidies to low-income individuals to purchase health insurance
  - Fills gap between what some individuals can afford and the price of insurance
  - Requires substantial subsidy for individuals to engage
  - Adds costs to State

Source: *Options to Extend Health Insurance Coverage to Virginia's Uninsured Population*, JLARC, House Document 19 (2007)

JLARC Options

- Provide subsidies to small employers
  - Could provide tax through tax incentive or direct payment
  - Could require that employers contribute to employees health insurance
  - Would require substantial subsidy for small employers to engage
  - Would add costs to State

36% of Virginia's uninsured adults are full-time employees of business with less than 100 people

Source: *Options to Extend Health Insurance Coverage to Virginia's Uninsured Population*, JLARC, House Document 19 (2007)

Governor's Health Reform Commission Recommendations

- Create a private health insurance product for working uninsured Virginians and small businesses who have limited access to other health insurance options
  - Available to uninsured individuals who work for small employers that have not offered health insurance for at least the last 6 months
    - $50,000 capped health care insurance policy
    - $135 estimated monthly premium
    - Those under 200% of the Federal Poverty Level
      - 1/3 paid by employer
      - 1/3 paid by employee
      - 1/3 paid by Commonwealth
    - Individuals over 200% FPL can purchase w/o VA contribution
    - Estimated cost $20,000,000

Source: Governor's Health Reform Commission, *Roadmap for Virginia's Health*, September 2007.

Governor's Health Reform Commission Recommendations

- Health IT Council to assist VHI in developing a consumer-friendly portal for all Virginians.
  - VHI would be a health care information clearinghouse that includes information on:
    - Quality
    - Pricing
    - Health Literacy
  - Estimated cost to create the portal is $454,750 over a 3 year period
    - Does not include marketing plan or insurer information

Source: Governor's Health Reform Commission, *Roadmap for Virginia's Health*, September 2007.

Policy Options

Policy Options

Option 1: Take no action

Option 2: Request by letter of the Chairman that the Joint Commission convene a workgroup to develop a plan i) for establishing a Virginia Health Insurance Exchange targeted for small businesses, ii) for increasing employer adoption of Section 125 plans, and iii) any other health insurance issues as deemed appropriate. A report to JCHC would be due by November 2008

- Workgroup will include:
  - Bureau of Insurance
  - Health insurance brokers
  - Health insurers
  - Small business employers

Public Comments

- Written public comments on the proposed options may be submitted to JCHC by close of business on November 5, 2007. However, to ensure comments are included in the preliminary matrix draft that will be distributed to JCHC members prior to the meeting, the comments must be received by close of business November 1st.
- Comments may be submitted via:
  - E-mail: sareid@leg.state.va.us
  - Fax: 804-786-5538
  - Mail: Joint Commission on Health Care
P.O. Box 1322
Richmond, Virginia 23218
- Comments will be summarized and presented to JCHC during its November 8th meeting.